

**DEPARTMENT OF HEALTH SERVICES**  
**Safe Drinking Water State Revolving Fund**

**APPLICATION GUIDELINES**  
**2004**

**Notice to All Applicants:**

The Application Deadline for 2004 Invited Projects is **December 31, 2004**.  
Only projects which have submitted a **COMPLETE APPLICATION** to  
Department of Health Services, Drinking Water Program, District Office by December 31, 2004  
will be considered for funding based on the 2004 Invitations.

## SDWSRF APPLICATION INSTRUCTIONS AND GUIDANCE

These instructions and guidelines are intended to assist applicants in filling out the loan application form for a construction loan. While other forms are to be used for planning or refinancing loans, these instructions should still be helpful. The guidelines should be used in conjunction with a copy of the SDWSRF regulations for a better understanding of the SDWSRF program requirements. The regulations and this guidance should be studied carefully before attempting to complete the application in order to avoid confusion and possible unnecessary work. The instructions and guidance may not fit all situations or there may still be some uncertainty as to what is required for a specific project application. In such cases, the applicant is encouraged to contact the District Office for the Department's drinking water program. The District Office can answer most questions and are available to assist applicants, if needed, in filling out the application. Partial applications will not be considered as "received" and will not be processed. If information required to be submitted as part of the application is missing, you will be notified within 30 days of the information that needs to be submitted before processing can begin.

Applicants are advised that only applications determined by the District Office to be **complete** will be processed. The District Office will notify an applicant by letter when DHS determines an application is "complete," at which time review will begin. If information required to be submitted as part of the application is missing, you will be notified within 30 days of the information that needs to be submitted. Incomplete applications will not be considered as received and will not be processed until all information necessary to deem the application as complete is provided to the District Office. If a completed application is not received by the application deadline, the project will be bypassed for that year. The project will remain on the Project Priority List and may receive an invitation to apply in a future year.

Applicants should be aware that there are several parts to the application package that need to be submitted. These include the application form itself and several attachments listed at the back of the application. As indicated, some of the attachments listed apply only to certain types of applications. One important attachment is the "Technical, Managerial, and Financial (TMF) Assessment Form." This form must be submitted with your application. If you are a community water system, you may have filled out a TMF Assessment Form and have had a TMF evaluation performed by the District Office. If so, simply attach a copy of the completed assessment form. For those systems that have not had an assessment conducted by the District Office, you must complete the TMF Assessment Form as best as you can and submit it with your funding application. You will find that in some cases the same information is requested in the application form and the TMF Assessment Form. Applicants only need to provide the required information once and do not need to duplicate it. For example, if the required information on one of the forms is included in the engineering report, simply refer to the appropriate section of the report (or some other location such as the TMF Assessment Form) where this information is available. If you have any difficulty in completing the TMF Assessment Form, please contact the District Office.

Since federal funds are being used to finance this loan program, much of the information that needs to be included in the application is necessary to meet federal requirements. For example, federal law states that funding can only be provided to water systems that demonstrate that they have an adequate technical, managerial, and financial (TMF) capability to operate a public water system satisfactorily. The TMF Assessment Form, a form that is separate from the SDWSRF application, covers the TMF information requirements. Should there be any missing TMF information, or any TMF improvements needed, the District Office will negotiate a schedule for submission of such information with the water system. The Department is using three different application forms depending upon the type of financial assistance requested. These forms are (1) a planning loan application, (2) an application for refinancing of existing indebtedness, and (3) a design and construction loan application. You may request copies of any of these forms from the Department. You may also duplicate any of the forms for your convenience. Applicants are reminded that all applications are for loans. A determination as to whether or not a disadvantaged community qualifies for possible grant assistance will not be made until the application is processed.

Once the invitations for applications are sent out, “completed” applications received by the application deadline will be processed on a “first come-first served” basis. If, for some reason, funds from the current year allocation are fully committed at the time your application is approved, your application will be held until the next year’s funds are available and your project will be among those receiving first priority in the next funding cycle. **To be assured of consideration for funding assistance from the current funding allocation, your application should be submitted as soon as possible, but no later than December 31, 2004.**

Applicants are encouraged to contact the Department’s District Office for your area if you have any questions or need any assistance. In many cases, it may be helpful to have an initial meeting with District Office staff to discuss the proposed project, timing, project eligibility, environmental review procedures, federal cross-cutters, or any other aspect of your project. If you desire such a meeting, please contact the District Office serving your project area.

The following instructions follow the same order as the questions on the application form.

## **PART A. GENERAL INFORMATION**

Pre-Application Number. This is the number of the project that appears on the project priority list. This number is necessary in order for the Department to determine which priority list project the application addresses. Some water systems have multiple projects on the priority list, making it difficult to relate the application to a specific project without this number.

Priority List Category: This is the category of the project that appears on the project priority list. The category is critical because, if SDWSRF funds are limited in a particular funding year, higher priority projects which file complete applications may receive funding offers earlier than lower priority projects.

1. Name of the applicant water system. This is the legal name of the public water system that is acting as the applicant for the loan. The name used should be the same as what appears on the domestic water supply permit. If it is different, please explain in an attached note. If the project involves more than one existing public water system, the water system whose name appears on this line must be the system that has been designated as the applicant and recipient of the loan on behalf of the water systems involved in the project. This agency will be assumed to be responsible for repayment of the loan should it be executed. For projects involving consolidation of several water systems, the District Office should be contacted and asked to determine whether each system involved in the project needs to submit a separate application.
2. Water system ID Number. This is the public water system number assigned to the water system by the Department. Since some water systems have similar or identical names, this number identifies the water system. The number should be on the domestic water supply permit issued to your water system. Contact the District Office if you have difficulty locating the ID number.
3. Street Address. This is the street address where the water system is located, not the address of an owner or company headquarters that may be located in a different city.
4. County. This is the county in which the water system's distribution system is located.
5. Mailing Address. This is the address where information and other mail regarding the loan should be sent.
6. Authorized Representative. Each loan applicant must designate a person who has the authority to represent the water system and sign documents pertaining to the loan application. If the water system is owned by a public agency or has a governing board, the application must include a copy of a resolution adopted by the governing body designating its authorized representative and authorizing the submission of a loan application. The loan application must be signed by the authorized representative. Should the water system change its authorized representative prior to final execution of the loan contract, the Department must be notified in writing with a copy of a new resolution.
7. Principal Contact Person. Fill in the name, title, telephone number, and e-mail address of the person that the Department should contact if we have any questions or need further information regarding the application or the project.
8. Project Engineer. The Department anticipates that a qualified engineer will prepare the engineering report that must be developed and submitted with this application. Therefore, where this information is available, the Department would like to know the

name and address of the engineer or engineering firm that is, or will be, planning and designing the project. This information will be helpful in reviewing and perhaps discussing the design parameters to be used in the project and can speed up the review and approval of the application.

9. Estimated Amount of Loan Funds Requested. This amount is only that portion of eligible project costs for which an SDWSRF loan is being requested. (Please refer to the SDWSRF program regulations regarding costs that are eligible for funding. Do not be concerned if this amount is substantially different from the preliminary estimate stated on the pre-application). The total project cost may be greater than the amount requested if other funds will also be used or if the project contains ineligible items. The requested loan amount should be based on the preliminary engineering design and estimated construction costs as set forth in the engineering report. The loan estimate should also include any cost of planning the project and preparing the application, for which the applicant may be seeking reimbursement. **These costs can be reimbursed only if the application is approved and a loan contract executed.**

The Department will determine the final eligible loan amount after completion of the review of the application. This amount will be reflected in the funding offer (Notice of Acceptance of Application) that will be sent to the applicant following application processing. Staff from the District Office will contact you to discuss any significant changes from your application that may arise from their review. The estimated amount of the loan set forth in the Notice of Acceptance of Application is expected to be further refined after the plans and specifications have been approved and the actual loan contract prepared.

## **PART B. MANAGERIAL INFORMATION**

1. Classification of Water System. Identifying the type of water system is important because some financing options are limited to certain types of systems. The three boxes represent the three types of systems that are eligible for funding. Please check the box that represents your type of system. If you are unsure of the classification of your system, you can check your domestic water supply permit. Your classification should be noted on the permit. If you are still uncertain, simply leave this space blank and it will be filled out by the Department based on our inventory records.
2. Ownership of the Water System. Similar to the classification of the water system, the type of ownership is also important since some financing options, (such as grants) are limited to publicly owned systems. Please check the box that corresponds to the ownership of your water system. Non-community water systems should be reminded that they must qualify as a nonprofit entity in order to be eligible. To verify this status, nonprofit owners of non-community water systems must include the appropriate IRS non-profit ID number.
3. Water System Regulated by the California Public Utility Commission (CPUC). Please check the box as to whether your water system is regulated by the CPUC. Water systems

regulated by the CPUC must obtain CPUC approval for a loan; therefore, these systems must apply for CPUC approval (if it has not already been done), once this application is submitted. A copy of the application to the CPUC must be provided to the District Office. In addition, a list of all matters relating to your water system that are currently pending before the CPUC must be provided.

4. Key Officers. The applicant must provide the name, title, and duties of key officers of the water system. If there are more than three individuals, an organization chart that shows the names, titles, and the reporting relationship of all key persons involved with the operation of the water system is to be submitted. The organization chart does not need to describe all personnel employed by the system, only those persons that have primary responsibilities for making decisions that affect the operation of the system.
5. Authority to Enter into a Loan Contract. The Department is required to verify that the applicant has the legal authority to enter into an SDWSRF contract. (After reviewing the water system's application, it may be necessary for the Department to request further documentation regarding an entity's ability to enter into a loan contract.)
6. Litigation. The Department needs to know if there is any litigation pending that could affect the water system's financial situation to the extent that the system's loan repayment capability could be hindered. Minor litigation that does not have this effect does not have to be described. However, if the litigation is over water rights, this needs to be described since it could affect the water system's ability to provide an adequate water supply.
7. Contract Operations. Some water systems contract with a private entity or another agency for the operation of their water system. This is a good way for some systems to overcome TMF deficiencies or provide more efficient operation. Where this is the case, the applicant must indicate the contractual party and provide a copy of the agreement.
8. Leases. The Department must be assured that the water system has full control over all key facilities of the water system. Therefore, if any major portion of the water system, such as water sources, land upon which all or a portion of the system is located, treatment facilities, or pipelines are utilized pursuant to a lease, the applicant must either describe the terms of this lease or simply attach a copy to the application. Leased equipment such as vehicles and leased space for laboratories or offices do not need to be described. If a lease is critical to the location or operation of proposed project facilities (such as land upon which a water source or a treatment plant is located), the lease will have to cover the loan repayment period (typically 20 years).
9. Water rights. State law requires that the Department establish that applicants hold any necessary water rights prior to executing a loan contract. Therefore, in this space you should describe the nature of your water rights that apply to your source. If your source water is derived from a surface source pursuant to a riparian right or if you extract groundwater from a basin that is not adjudicated, a statement to that effect will be sufficient. If you purchase water from another water source, simply indicate that fact in the space and attach a copy of the contract. If you divert surface water pursuant to a

water right granted by the State Water Resources Control Board, a copy of that permit should be attached to the application. If you have applied for a water right permit but one has not yet been issued, a copy of your application for the water right should be attached. If you extract water from an adjudicated groundwater basin, a copy of your right to extract such water from the basin water master should be attached.

## PART C. TECHNICAL INFORMATION

1. Problem Description. In many cases, the drinking water problem to be addressed by the project will be described in the engineering report. If that is the case, simply refer to the appropriate section of the engineering report (e.g. see Section I (a) of attached Engineering Report) in this space. Only that problem or problems that the project will address and resolve should be described. Do not describe all of the problems in the system. In most cases, the applicant submitted necessary documentation to demonstrate the problem as part of the pre-application submitted for the project priority list. If this is still adequate, no further documentation is needed. If, however, the situation has changed, or the information is outdated, additional documentation should be submitted.

The project for which this application is being submitted was ranked based on a specific problem. This problem must be the primary problem that the proposed project would address. A common mistake made by applicants is to include water system improvements (such as improvements to the distribution system) that are not directly related to the problem being solved. ***To be considered eligible for funding, all elements or components of the proposed project must be directly related to the primary problem.*** With respect to water mains for example, if a new well is being drilled to solve a source water problem, the piping to connect the well to the distribution system is eligible but piping to replace old or leaking distribution lines is not eligible.

The Department recognizes that some systems have multiple problems and may have more than one project on the project priority list. If a water system has received an invitation from the Department to submit more than one application (multiple projects within the fundable portion of the list), the applicant may combine those projects into one application. In these situations, both problems must be described. Applicants cannot request funding for lower priority problems as part of the project application without the Department's specific approval. For example, if the problem is a nitrate contaminated well, funding for the project cannot include improvements to the distribution system since those problems are unrelated to the primary problem being addressed. The applicant should be aware that if unrelated problems or project elements are included, these elements may be excluded from funding consideration and would have to be paid for by the applicant.

The Department recognizes water conservation measures, energy conservation and reliability features, and water system security upgrades as valuable enhancements to projects. Therefore, when appropriate in the context of the funded project, components such as water meters, auxiliary generators, upgraded fencing, or other measures to

improve water conservation, energy efficiency and reliability, and security components may be eligible for loan funds.

In a few situations, some separate projects that have not received an invitation to apply could be included if: (1) the cost is minor compared to the primary project (<25% of the total project costs); (2) the secondary problem being addressed is also high or medium priority (priority classes A-L); and (3) solving the secondary problem would cost significantly more if funded as a separate project at a later time. If you have any doubts or questions regarding combining multiple problems, you should contact the District Office and discuss them.

2. Project Description. Just as the problem was described in the previous section, it is also necessary to describe the project that will be constructed to resolve that problem. In most cases, this will already be done in the engineering report. If so, simply refer to that report in this section. If the engineering report does not describe the project for some reason, provide a brief description in this space or attach a separate description.
3. Service Area. For purposes of project affordability and other factors, it is essential that the service area of the water system be delineated. For most water systems, particularly community water systems, this can be done most readily by providing a map showing the boundaries of the service area. For municipal systems, the service area is likely to be the city or town limits, in which case a map showing those limits is sufficient. Some large special districts, however, may include more than one public water system within their legal district boundary. The service area, in this case, should be the area served by the specific water system rather than the overall district boundary. For community water systems that do not have a specified legal boundary, the service area should be described as that area served by the existing distribution system.

Since non-community water systems do not usually have distribution systems, it may be more difficult to determine the service area. If the majority of the “users” of the non-community system are derived from a specific area, then this area can be used as the service area for the system. For example, if more than half of the students of a rural school that is a non-community system come from a specific community, that community can be used as the service area. For other non-community systems, the county in which the system is located will generally be used as the service area with respect to determining median household incomes etc.

If the boundaries of the water system extend beyond the area served by the existing distribution system, the location of the current distribution system within those overall boundaries should be shown on the service area map.

4. Population Served. This should be an estimate of the population served on an average daily basis by the water system. For community water systems, this would be the permanent population of the community. Seasonal community systems should use the average population served by the system during the peak period in which the system is in operation. Non-community water systems should use the average daily population served during the periods that the system is in operation. The estimated population can



be derived from census data, use records, billing information, or by converting service connections to population using a conversion factor of 2.8 persons per connection, whichever most closely approximates the actual number of persons served.

5. Service Connections. This is the total number of active service connections that are currently and directly served by the water system. This includes all domestic or residential, industrial, commercial or other connections. Wholesalers, or persons who deliver water to another water system, should contact the District Office as to the appropriate number of service connections to be used since this may vary depending upon the type of project being proposed. Non-community water systems do not need to fill out this section (simply indicate “not applicable”).
6. Engineering Report. This section is the heart of the application and contains most of the technical information needed to process the application. The engineering report should be prepared by a qualified professional engineer with experience in water system design. Use of this type of expertise will speed up the processing of the application and will reduce the depth of the Department’s technical review. There is no particular format for the report but it is essential that specific elements be addressed as described below.

Evaluation of Alternatives. Both State and federal law require that funds may be provided only to fund the most cost-effective solution to the problem. Therefore, it is essential that all feasible alternatives be evaluated. For example, if the problem is a contaminated well, alternatives may include drilling a new well, installing treatment on the existing well, blending the water with other uncontaminated sources, purchasing water from another system, or abandoning the source and physically consolidating with an adjacent water system. Alternatives that are obviously not feasible for economic or physical reasons do not have to be evaluated. An alternative should not be discarded for political reasons (e.g. simply because the adjacent system is not interested in consolidating).

In considering alternatives, only alternatives that involve significantly different concepts (such as those described in the above example) need to be evaluated. It is not necessary to evaluate different forms or variations of the same basic concept. For example, in evaluating alternatives for a surface water supply, it is not necessary to compare conventional filtration versus direct filtration or use of filtration membranes. It is only necessary to compare filtration (in general) against other concepts such as use of groundwater.

In addition to evaluating and discussing the “feasibility” of each alternative, the report should estimate and compare the costs and relative effectiveness (including reliability) of the alternatives. “Costs” need only be addressed in a general sense. The cost-comparison of alternatives may be based on “typical” construction costs, use of existing examples, or application of best engineering judgment; specific detailed costs of the alternative are not required.

State law also requires that the basic environmental impacts of each alternative be determined and compared. This information may be presented in the Initial Study that

many systems will need to prepare as part of the environmental review (CEQA - California Environmental Quality Act) process. For those projects that have not gone through the CEQA process at the time of application submittal, an initial comparison of environmental impacts will be necessary. This comparison does not have to be detailed but merely compare the general impacts of the alternatives.

All factors will be taken into account but the primary decision as to which alternative to fund will be based on “cost-effectiveness.” This means the project alternative that achieves an acceptable result at the least cost. In comparing the relative cost of each alternative, both initial capital costs and operation and maintenance (O&M) costs (over the useful life of the facilities) should be considered.

Consolidation. Consolidation with another water system must be included and evaluated as one of the alternatives. The Department recognizes that consolidation is generally not a feasible option for larger systems. Therefore, systems serving more than 10,000 persons do not need to explore this option in any detail but can simply include a statement that consolidation is not feasible. Smaller systems, however, must evaluate this possibility. If consolidation is deemed not to be feasible, the reasons for that determination must be described.

“Consolidation” with respect to the engineering report means physically combining two or more systems into one system with the elimination of the other merged system(s) as separate water systems. Consolidation needs to be evaluated only with other systems that are in reasonably close proximity and which could be inter-connected by pipelines where the physical terrain makes this feasible. After evaluation, consolidation may be deemed to be a non-viable alternative due to costs, physical factors, or limitations of the adjacent water system. For example, the adjacent water system may not have sufficient water to serve the combined systems, may not have adequate TMF capability, or may simply refuse to consolidate. If consolidation appears to be a cost-effective solution but the other water system refuses to agree to the consolidation, the applicant needs to include a letter from that water system confirming their refusal.

Consolidation may also play a role in the correction of TMF deficiencies of an applicant. In some cases, consolidation may be the only means of correcting existing TMF deficiencies. Under these circumstances, consolidation could be funded as the selected alternative even though it may not be the most cost-effective solution.

Project Description. The selected project alternative should be fully described in the engineering report. Each component or unit process, as well as related equipment, should be described as to necessity (with respect to solving the problem), function, size, and relationship to other project components. The useful life of the key system component (the component(s) that makes up the largest cost factor) of the project should be estimated. The report should also describe how the project would solve the primary problem and the results that would be expected.

The project description should also identify any elements of the project that will be included but are ineligible for funding using the eligibility criteria in the regulations. The

construction project can include ineligible components, however, the applicant will need to identify a funding source other than SDWSRF funds to pay for the ineligible portion. If the application combines more than one project on the priority list (as discussed in Section 1), the elements or components of each of the combined projects should be identified separately.

Conceptual Project Design. The engineering report must include a conceptual or preliminary project design. For treatment facilities, this would include identification and description of the unit processes to be used and a project layout of the treatment process showing the location of the facilities and a flow diagram. The anticipated size or design capacity of each unit or major piece of equipment should be indicated. For new wells, the size of the well casing and the pump, as well as the expected yield of the well, should be indicated. Any assumptions, design criteria, flow rates, etc. used to size the facilities should be shown. Any reasonable methods may be used to estimate flows, water demand, or unit capacities including existing records, comparison with similar water systems, and use of AWWA or Ten-State standards.

A map or drawing must be included in the report that shows the location of key facilities of the existing system (e.g. sources, treatment units, reservoirs, storage tanks, and primary distribution mains) and the proposed location of new facilities. If the purchase of land will be included in the application for funding, the size, location, and purpose of each parcel must be shown or described. Unless shown elsewhere, the map also needs to clearly delineate the service area of the water system.

Analysis of Projected Growth. The SDWSRF is prohibited from funding projects, which exceed a “reasonable amount of growth.” The applicant is referred to Health and Safety Code Section 116760.20 (j) for the definition, and important exceptions or exclusions. In essence, growth is limited to 10 percent above the amount or capacity needed to serve existing water demand at peak daily flow. In addition, federal law makes ineligible any project whose purpose is “primarily to serve future growth.” This is interpreted by the Department to mean that excess capacity will not be funded by the SDWSRF. **SDWSRF allows for fire flow consideration in facility design, but restricts the additional capacity for fire flow to no greater than the peak daily flow. In combination, this means that** excess capacity, [greater than  $(2P+0.01P)$ , where P is peak daily flow] will not be funded by the SDWSRF. Excess capacity can be included in a proposed project but the applicant will need to pay for the ineligible capacity by some other means. Capacity is “primarily to serve future growth” when it is more than double the capacity needed to serve existing water demand. The applicant may pay for additional excess capacity (no greater than  $0.90P$ ) from another source if they desired. However, if the proposed capacity of a major project component were more than  $3P$ , the entire project would be declared ineligible, and excluded from SDWSRF funding.

In the application, the applicant needs to conduct several analyses and address certain items in order to establish the eligible design capacity of the project. These steps are explained below. As indicated earlier, all assumptions, criteria, and calculations used must be shown and described.

Step 1: Determine the existing peak daily water demand. This should reflect the demand as of the date of submission of the application. Where possible, this peak daily demand should be based on records of usage experienced by the water system during recent periods of highest daily use (e.g. during the past 5 years). Where such records are not available, the applicant must calculate approximate peak daily demand based on annual use, number and type of consumers etc. using reasonable criteria. In determining existing water demand, be sure to include water delivered to another public water system under an existing contract. The allowable amount of growth in water demand would be the existing amount determined by the above plus 10 percent.

Step 2: Determine the amount of water demand that will be included in the proposed project. This should be based on the projected water demand for the water system over the next 10 years. Even though the proposed project may not include all of the capacity needed to serve the 10-year projected demand, the applicant should have a plan for meeting that demand.

Step 3: Determine the design capacity or size of key facilities that are proposed to be constructed to meet the water demand determined in Step 2 at peak daily flow. This should include any water sources, primary treatment unit processes, pumping and storage facilities, and transmission mains that will be part of the project. The project engineer may use any of several methods or criteria to determine the design capacities or size of these project components including Waterworks Standards, previous design criteria such as filter flow rates, as approved by the Department; AWWA criteria; or Ten-States Standards. The assumptions and criteria used to size the units must be clearly shown. If a specific item of equipment (such as a water main) is not available in the size determined to be eligible, the next larger available size may be used; these upgraded components remain subject to the 3P size limitation.

While funding to accommodate future growth is limited, applicants can include provisions within the eligible project that will facilitate the construction of additional treatment units in the future. For example, piping and valve arrangements and pipe “stub-outs” to accommodate future treatment units can be included in the project funding.

Cost Breakdown of Proposed Project. In most cases, the initial cost estimate included in the pre-application form was a rough estimate. It is expected that the full application will refine those estimates. Applicants are not limited to the amount stated in the pre-application. In developing the cost estimates for the project, the applicant must break the total cost estimate down into various project elements. As a minimum, the engineering report should show the anticipated costs of the following items if they will be included in the loan funding requested. If the applicant intends to pay for any of the items from another source, such as reserve accounts, this should be shown on the summary table on the application form (Part D. Item 5).

- Planning, preliminary engineering, and application preparation
- Design and engineering costs

- Construction costs broken down by:
  - Major project components
  - Land acquisition
  - Eligible versus ineligible items
  - Excess ineligible growth capacity
- Construction management and contingencies
- Legal and administrative costs
- Other (describe)

If the project contains ineligible construction items, the percentage of indirect costs (planning, administrative, design etc.) that apply to the eligible construction portion should be estimated. This can be based on a straight pro-ratio if desired and will be the method used by the Department unless some other means is indicated.

Scheduling. The engineering report should also include a proposed schedule for project completion. The schedule should allow time needed for preparation and submission of plans and specifications, completion of financing and preparation of construction bids (after approval of plans and specifications), and completion of construction. Be sure to include the time needed to complete the CEQA or NEPA<sup>\*</sup>-like environmental review process. Timeframes should generally be expressed as months needed, rather than specific dates, since the timing of any SDWSRF funding offer (Notice of Application Acceptance [NOAA]) is unknown. The District Office will use these estimates as a basis for preparation of an overall project schedule. **Applicants are reminded that, should a funding offer be made, the funding offer will expire if they fail to enter into a funding contract with the SDWSRF within 12 months of NOAA.** Applicants are further advised that construction must be completed within 3 years from the time the loan contract is executed. If the applicant feels this cannot be accomplished, the District Office should be contacted as soon as possible.

7. Environmental Documentation. An environmental review that complies with CEQA is required as part of the application process for all projects seeking SDWSRF funding. In addition, applicants whose water systems serve more than 1,000 service connections must ensure the review also complies with NEPA. The USEPA has established specific “NEPA-like” requirements in its Operating Agreement with the Department.

Compliance with CEQA can be a time-consuming process. Therefore, in order to avoid delay in the funding application process, the CEQA (and where applicable, the NEPA-like) process can be completed following submission of an application and receipt of a

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<sup>\*</sup> NEPA: National Environmental Quality Act

Notice of Application Acceptance. CEQA documentation, such as a Negative Declaration, an Environmental Impact Report (EIR), and a Notice of Determination, may be submitted at the time of application if they are completed. NEPA-like documentation, such as cultural resources survey reports, should be submitted as soon as possible if federal cross-cutting laws will apply to the project. If any documentation still needs to be submitted, the application must include a completed "Schedule of Dates for Compliance with CEQA and NEPA-like Requirements." Please note that all CEQA documentation must be circulated through the State Clearinghouse. A loan contract will not be issued until the environmental review process is complete.

In cases where the applicant is a public agency, and has determined that the project is exempt from the documentation requirements of CEQA, a completed "Safe Drinking Water State Revolving Fund Environmental Information Form & Worksheet for CEQA Exemptions" must be submitted with the application.

In cases where applicants are not public agencies (e.g., private companies and mutual water systems), the Department may assume the lead agency role under CEQA for the preparation of documentation. If this is the case, the water system must submit a completed "Safe Drinking Water State Revolving Fund Environmental Information Form" with the application. If, based on this form, the Department determines that the project is not exempt from CEQA, you must submit to the Department the equivalent of an Initial Study prepared pursuant to CEQA guidelines, before the project can be constructed or a loan contract issued. If the Department determines that an EIR should be prepared, the applicant must submit to the Department an EIR prepared pursuant to CEQA guidelines, in addition to the Initial Study. To assist in preparing an Initial Study or EIR that will be adequate for the Department's use, the water system may wish to retain the services of a consultant.

Included with the application package material is Environmental Guidance prepared by the Department to assist you in understanding and preparing the appropriate environmental documentation. All of the environmental documents will be reviewed and approved by the Department's SDWSRF Environmental Review Unit. Staff of this unit is also available to assist you and respond to any questions. They may be contacted at (916) 445-2519.

**TMF Information.** As indicated earlier, a TMF assessment will be performed for your water system by the Department's District Office. Should the assessment identify any TMF deficiencies that require correction, the cost of completing those corrections can be included as an eligible project cost if you so desire. **The TMF information must be submitted with this application.**

The Department has set aside some funds to be used to provide assistance to smaller water systems (those serving less than 1,000 service connections) as well as any disadvantaged community in developing the TMF documents. Small system applicants that cannot develop this information themselves may request assistance from the Department. Upon receiving such a request, engineers from the District Office (or in some cases, a technical contractor hired by the Department) will visit the water system

and provide “hands-on” assistance in developing the necessary documents at no cost to the applicant. If a small system applicant desires this assistance, the applicant should advise the District Office so that the District Office can schedule a visit. An applicant may make a notation to this effect on the application form, call the District Office, or simply advise the District when the District contacts the system during the review of the application.

#### **PART D. FINANCIAL INFORMATION**

The following items are very important in order to help establish the affordability of the proposed project. Affordability is measured in terms of water service charges imposed on residential customers. In particular, Items 1 through 3 should be as accurate as possible. In estimating projected costs, use current dollars and do not apply an inflation factor. These items do not have to be filled out by non-community water systems (since their ability to repay a loan will not be based on user water rates). Non-community systems should mark these items as not applicable.

1. Average current monthly residential water bill. It will require some calculations in order to determine the average current monthly residential water bill. The amount should reflect the “average” monthly charge imposed on your residential customers. The purpose of this information, and the information required under Item 2, is to assist the Department in determining the affordability of your project.

One of the key factors used in determining the ability to repay the loan is *consumer affordability*. In addition, other factors such as overall credit-worthiness, degree of indebtedness etc. are considered. Affordability is based on a comparison of average residential water bill of the system to a standard “consumer target rate” California Code of Regulations, Section 63000.90) For disadvantaged communities, the affordability analysis will also be used to determine the amount of grant funding, if any, that may be awarded.

The starting point for the affordability analysis is to determine what your residential users are currently paying for drinking water on the average. (Do not include industrial and commercial users.) This can be done by an evaluation of past charges or some other method. If the water system uses a “tiered” water rate, the charge should reflect what a typical residential user pays. The rate should reflect direct water charges plus any other fees or charges that support the water service such as parcel fees, standby charges, water taxes, and surcharges. In addition to providing the average monthly water amount, the application should describe the method that was used to calculate the average residential rate. Please attach a copy of the current rate structure for your water system to the application.

2. Impact of the SDWSRF loan on the average monthly residential water bill. Similar to the above calculation, you will need to calculate what the projected average monthly residential water bill will be should the requested SDWSRF loan funding be provided. Under this item, you must estimate the portion of the eligible project cost that will be

passed on to the consumers (this should be consistent with the engineering report) and the effect this cost will have on water rates. The purpose of this is to determine the cost impact of the loan on the residential users if the loan is made. In calculating this projected cost, all related costs of the eligible project (do not include any ineligible project costs), including operation and maintenance costs, should be included. No SDWSRF grant funding should be assumed; however, if grant funds from other agencies will be included the lower water rate reflecting the other grant can be included. Disadvantaged communities may assume a zero interest rate on their loan but other agencies should use a higher rate. During calendar year 2004, the projected interest rate for conventional SDWSRF loan offers is 2.34 percent. SDWSRF loans are generally for 20 years. If you are not certain whether your community qualifies as “disadvantaged,” use the higher rate. Do not include anticipated increases in the water bill that are not related to the eligible portion of the SDWSRF project (this will be included in the next item).

Your methodology and calculations for determining the cost impact of the loan should be shown. The Department will assume that project costs will affect residential and nonresidential water charges in a proportional manner to current costs. If this is not the case, you should describe the reason for shifting the cost burden.

3. Average projected monthly residential water bill. This item requests the total overall projected water charges that will be passed on to residential water users. This should include any ineligible project costs as well as non-project-related water system costs that will be imposed on the residential users during the next 5 years. This is calculated in a similar fashion to the previous items. As an example, the current average residential water rate may be \$20 per month, the impact of the proposed project loan may raise this to \$28 per month, and the overall projected monthly rate for the next 5 years may be \$35 per month.
4. Water rate structure. This item merely requires you to attach the water rate structure (for all consumers, including commercial and industrial users) covering the past 3 years.
5. Estimated project cost. This item requires a summarization of the project cost broken down by category and source of funding. Much of this information may be derived from the engineering report but it may not be in this format, therefore, it should be re-summarized here. If the categories used in the engineering report are more detailed than the categories listed in Column 1, the categories in the engineering report may be used. This is also a location where you should indicate the source of funding for any ineligible items that will be included in the project and that will be paid for by the applicant. The total amount at the bottom should be equal to the total cost of the project. In Item F. Contingencies, you should consider including a contingency for unforeseen construction costs. As indicated in the SDWSRF regulations, the applicant must pay for construction change orders that occur during construction that result in a cost increase. In addition, once a contract is executed, an entity has only one opportunity to request a funding increase, and that increase must be based upon bids. The entity is responsible for any cost increase after that.



6. Source of other funds. This item requests a breakdown of column number four (other loans and grants) from the previous item. If project funding will be entirely from SDWSRF funds, this section does not need to be filled out. If the proposed project will be funded from multiple sources, you must provide a breakdown of those sources in this box. For example, if additional funds will be obtained from a federal agency such as the Rural Community Assistance Corporation or the Department of Housing and Urban Development, or from a private lender, the full name of each of the lenders or grantors should be listed under Fund Source. The second column should designate whether the funds are in the form of a loan, a grant, or in the case of applicant funds, whether these are from cash reserves or some type of internal loan.

In the fourth column, simply indicate with a yes or no whether these funds have been applied for at the time this application was submitted. If the funds have been applied for and have actually been secured indicate that in column 5. If an applicant's ability to repay the SDWSRF loan, or if commencement of the project is contingent upon receiving these other funds, the Department will impose a condition that these other funds be secured before a loan contract will be executed. The Department encourages the use of multiple funding sources and works cooperatively with other funding agencies to coordinate and expedite funding.

7. Source of funds for loan repayment. The federal SDWSRF requirements make it clear that an applicant must have a "dedicated" source of funds for loan repayment. Prior to actual loan execution, you will need to submit a resolution or ordinance adopted by your governing board establishing the dedicated funding source. At the time of application, you only need to describe the funding source that you plan to use for loan repayment.
8. Loan Security. You need to identify what you are proposing to use as security for a loan, for example, assessments, stock, or property. If you are using property, you need to provide an estimate of the value and how it was determined, and whether the property is already pledged as security for another loan.
9. Financial Statements. Provide required financial statements.
10. Existing indebtedness. Provide information on existing outstanding loans of the water system.
11. Cash reserves. This item asks you to describe any cash reserves that your water system has in place. This would include any cash-flow reserve, emergency reserve, equipment replacement fund, contingency reserve etc. This information is needed to help establish the financial viability of your water system. Bear in mind that if a loan contract is executed, you will be required to maintain a loan repayment reserve equal to two loan repayments. This will be spelled out in the loan contract.

The Department of Water Resources (DWR) will be conducting the financial analysis of applications with respect to loan repayment capability etc. DWR will also be making the determinations as to maximum loan amounts, grant eligibility, interest rates, and loan repayment terms. Therefore, you may be contacted directly by DWR with respect to any of these items.

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